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TAGS: [EAIR](#) [ECON](#) [PREL](#) [RS](#)
SUBJECT: RUSSIA: CIVAIR: ENTRENCHED BUSINESS INTEREST TRIES
TO HOLD ONTO MONOPOLY POSITION

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[1](#)B. KYIV 1974
[1](#)C. KYIV 2383

Classified By: ECON M/C ERIC SCHULTZ

SUMMARY

[1](#)1. (C) In a September 28 meeting, International Air Transport Association (IATA) regional representative Dmitri Shamraev noted the welcome resolution of IATA,s problems in Ukraine (reftels) but cautioned that IATA was not yet out of the woods in Russia given the entrenched position of Transportation Clearing House (TCH), which has succeeded in maintaining a near monopoly over ticket sales in Russia and is at odds with industry efforts to modernize the global ticket clearinghouse system. END SUMMARY.

TCH,S TICKET SALES MONOPOLY

[1](#)2. (SBU) According to Shamraev, there is no entity in Ukraine that resembles TCH. In Ukraine, the dispute has centered around attempts by the civil aviation authorities to extract rents from IATA,s BSP system, which has operated in Ukraine since September 2005 and has taken over 60 percent of ticket sales.

[1](#)3. (SBU) By contrast, in Russia, TCH is a regional competitor to IATA,s BSP system and it has used its considerable influence over the civil aviation sector to preserve a near monopoly over ticket sales. Only 5-10 percent of all ticket sales in Russia are made through IATA,s modern, efficient BSP system, with the rest still under TCH,s control.

[1](#)4. (SBU) Shamraev told us TCH has successfully slowed BSP,s introduction in Russia through a variety of tactics. TCH had threatened travel agencies with lost business should they switch to BSP. TCH had also pointed out that the transparency and discipline that the BSP system demands would

reduce the travel agencies rent-seeking opportunities. TCH had also used civil aviation officials to question BSP,s legality. Government pressure on IATA intensified last fall when federal tax authorities conducted an audit of IATA,s Moscow offices. Shamraev said that investigators discontinued their review when they could not find any incriminating evidence in their search but he did not rule out future harassment along these lines.

15. (SBU) To counter TCH,s influence, IATA has enlisted the help of politically-connected allies to make their case with the government. In particular, IATA has partnered with VneshTorgBank (VTB), a bank with close ties to the Kremlin, to conduct all their payment clearing operations.

TIDE MAY BE TURNING

16. (SBU) Shamraev said that TCH is probably fighting a losing battle as travel agencies and airlines realize the economic benefits and advantages of IATA,s BSP. Aeroflot joined the BSP in June 2007, and is already realizing its advantages, especially with respect to e-ticketing. Aeroflot had initially requested only two sales stations, but recently asked IATA for a number of additional outlets.

17. (SBU) In addition, travel agencies that do business with TCH have created separate offices to handle their international ticket sales with the BSP system to avoid TCH pressure. Moreover, some international airlines, such as British Airlines, are pushing travel agencies to join BSP by threatening to move completely to an E-ticket platform ahead

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of IATA,s scheduled May 2008 deadline. (NOTE: Only BSP certified travel agencies are able to process tickets for BSP-member airlines that have fully converted to E-ticketing. IATA has set May 2008 as the deadline to convert its BSP system to 100 percent E-ticketing. END NOTE.)

COMMENT

18. (C) The TCH/IATA conflict is a classic example of an entrenched business interest fighting the adoption of a more efficient system. BSP would increase the economic welfare of all other parties concerned but at the cost of TCH,s monopoly rents inherited from the collapse of the Soviet Union. Market forces and IATA,s technologically superior services seem likely to win out in the end, particularly given IATA,s efforts to court local allies such VTB and Aeroflot. END COMMENT.
Burns